



CENTRAL DEPOSITORY
SECURITIES LENDING & BORROWING
OPERATIONAL PROCEDURES, 2019

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1. INTRODUCTION

1.1 PURPOSE

- 1.1.1 The objective of this document is to provide readers an overview of how the SLB business will function taking into consideration local regulatory requirements.
- 1.1.2 The Screen based SLB model will allow Lenders and Borrowers to carry out SLB transactions through SLB Agents.
- 1.1.3 The features and mechanics of the Screen Based SLB model are explained in detail in the next sections.

2. DEFINITIONS

- Account.....means a securities account;
- Act.....The Central Depositories Act
- Borrower..... Any investor or entity that is allowed to borrow securities from a lender;
- Borrowing Agent..... An SLB agent authorized to conduct securities borrowing transactions on behalf of others;
- Central Depository.....The Central Depository and Settlement Corporation Limited a limited liability company, incorporated in Kenya and approved under Section 5 of the Act;
- Entitlement Date.....The date fixed by an Issuer for the purposes of determining entitlements, dividends or other distributions.
- Lender An investor or entity that is allowed to lend securities to a borrower;
- Lending Agent.....An SLB agent authorized to conduct securities lending transactions on behalf of others;
- Loan creation.....Creation of an SLB Transaction where the loaned securities move from the Lender’s depository account to the Borrower’s depository account;
- Lending fee.....A percentage of the value of the securities that are loaned payable by the borrower to the lender of securities;
- Loan recall A request by the Lender to the Borrower to return loaned securities before the return date;
- Loan returnBorrower returning loaned securities to the Lender on the loan expiry date or a return of loaned securities initiated by the Borrower before the loan expiry date.
- Loaned securities.....The specified securities lent or borrowed;
- Margin.....The amount of collateral required above the value of the loaned securities to cover potential adverse movements in the value of the securities and the word margining shall be construed accordingly;
- Net Settlement Obligation.....The sum of the total debit amounts netted off against the sum of the total credit amounts for the relevant settlement day.
- Rebate ratePart of the interest earned by the collateral held by the lender returned to the borrower where collateral is in form of cash;
- Regulated person..... has the meaning assigned to it under the Act;
- Return dateDate agreed between the Lender and Borrower for return of loaned securities;

- Securities lending.....The temporary transfer of securities from one party, the lender, to another, the borrower, with a simultaneous formal agreement to return the securities either on demand or at a future date;
- Settlement Account..... An account to be opened by each SLB agent at the Settlement Bank for purposes of making payment or receiving payment in respect of settlement by or to such agent;
- Settlement bankThe bank(s) appointed by the Central Depository to provide clearing and settlement services;
- Settlement date.....The day following return date when settlement obligations shall be settled
- SLB Agreement.....An electronic securities lending contract automatically executed by the system in a securities lending and borrowing transaction;
- Settlement Instruction.....An instruction generated by CDSC to the Settlement Bank to effect funds settlement in accordance with the settlement schedule;
- SLB Securities Lending and Borrowing;
- SLB Agent An Agent who is appointed and authorized by the Central Depository to carry out SLB transactions;
- SLB instructionAn instruction, in a prescribed manner to the Lending/Borrowing Agent for loan creation, loan recall, loan return.
- SLB Regulations Capital Markets (Securities Lending and Borrowing and Short Selling) Regulations, 2016;
- Settlement Report..... A report generated by CDSC on net fund position of each Participant for each trade day;
- SLB settlement obligation..... The accrued lending fee and accrued cash dividends that the borrower is required to pay the lender at the end of the period.
- SLB system CDSC's proprietary depository system which records Loan Transactions and moves loaned securities from Lender to Borrower or from Borrower to Lender;
- SLB Transaction A transaction created by the SLB System showing details of securities loaned to a Borrower or details of securities borrowed from a Lender;
- Statement of Account.....A statement generated by CDSC showing transactions effected and balance of securities.

3. SLB AGENT APPOINTMENT PROCEDURE

- 3.1** An application for appointment to operate as an SLB Agent shall be submitted to the chief executive of the Central Depository in accordance with rule 4 (2) of the Central depository SLB rules.
- 3.2** Upon receipt of the application, CDSC shall review the application and establish whether the applicant meets all the requirements set out under rule 4 of the Central Depository SLB Rules before submitting it to the CDSC Business Conduct Committee for consideration.
- 3.3** Upon approval by the business conduct committee, CDSC shall inform the applicant of the appointment in writing and request them to do the following:
 - 3.4** Sign the SLB Agency Agreement
 - 3.5** Select a settlement bank from the list of appointed settlement banks and open a settlement account.
 - 3.6** Sign the tripartite agreement between CDSC, the settlement bank and the Agent
 - 3.7** Deposit the required minimum contribution to the SLB settlement guarantee fund
 - 3.8** Upon completion of 3.3 above CDSC shall train the agent and add the agent to the SLB market to start operations.
- 3.9** If the application for appointment is rejected, CDSC shall inform the applicant in writing within fourteen (14) days providing the reason for rejection. Any applicant whose application is rejected may appeal within fourteen (14) days to the Business Conduct Committee whose decision shall be final.

4. SUSPENSION OR REVOCATION OF AN SLB AGENT

- 4.1** An SLB agent may be suspended from performing some or all the functions of an SLB agent due to the circumstances set out in Rule 11 (1) of the Central Depository SLB rules.
- 4.2** The decision to suspend the agent shall be made by the Chief Executive and the Agent shall be informed in writing of the suspension and the reasons therefor.
- 4.3** Upon suspension, CDSC shall disallow the agent in the system and the agent shall no longer be able to submit any new SLB transactions.
- 4.4** The agent will remain subject to the SLB Rules and Procedures and shall be required to perform all the necessary processes until all outstanding SLB contracts are closed.

5. VOLUNTARY TERMINATION OF APPOINTMENT

- 5.1 The agent will remain subject to the SLB Rules and An SLB agent may elect to voluntarily terminate its appointment by providing a written notice of termination to CDSC.
- 5.2 The agent shall specify in the notice, the desired date for its withdrawal provided that such date shall not be prior to the scheduled final settlement date of outstanding obligations owed by the agent.
- 5.3 Such termination shall not be effective until accepted by CDSC in writing. CDSC shall provide a response within 10 business days after receipt of the notice from the agent.
- 5.4 Upon acceptance, CDSC shall disallow the agent in the system and the agent shall no longer be able to submit any new SLB transactions.
- 5.5 Procedures and shall be required to perform all the necessary processes until all outstanding SLB contracts are closed.

6. SECURITIES ELIGIBLE FOR SLB TRANSACTIONS

- 6.1 Securities constituting the NSE 20 share Index as revised from time to time shall be eligible for SLB transactions
- 6.2 Where a security is removed from the Index, the outstanding SLB transactions shall be carried to term. However, no new transactions shall be entered into on that security from the date of removal from the index.

7. BORROWING

This function describes the procedures to be followed with respect to receiving instructions and capturing borrowing requests in the CDS. The SLB agent must have a signed agreement in place with the client before accepting any instructions.

7.1 PROCEDURES FOR BORROWING

- 7.1.1 Where the client wishes to borrow securities, the client shall provide collateral and submit borrowing instructions to the SLB agent;
- 7.1.2 The collateral provided shall be 100% of the value of the securities to be borrowed. The value shall be calculated as total number of shares multiplied by the previous day's weighted average price;
- 7.1.3 The client shall be required to provide an initial margin of 10% of the value of the securities to be borrowed;
- 7.1.4 The SLB Agent shall deposit sufficient collateral to cover the value of the securities to be borrowed and the required margin in the SLB collateral collection account that is designated as such by CDSC for each SLB Agent and capture the collateral in the CDS;
- 7.1.5 CDSC shall approve the collateral upon confirmation of funds deposit or upon confirmation of

pledging of securities in favor of CDSC for securities collateral;

- 7.1.6 The Agent shall verify the accuracy of the borrowing instructions provided by the client and ensure collateral is in place before capturing the borrowing request;
- 7.1.7 The Agent shall capture the borrowing request in the CDS and submit the request. The following shall be captured for the borrowing request:
- i) Security
 - ii) **Security** quantity: the quantity of **securities** to be borrowed;
 - iii) Borrowing Fee
 - iv) Expiration date
 - v) Whether the borrower accepts single or multiple counterparties
- 7.1.8 Upon submission, the equivalent collateral and margin (110%) shall be reserved and the request shall be added to the pool of available borrowing requests or matched with a corresponding lending request, as the case may be.

7.2 PROCEDURE FOR EDITING OR CANCELLING BORROWING REQUESTS

- 7.2.1 The borrowing agent may initiate a request in the CDS to either edit or cancel a borrowing request.
- 7.2.2 The agent will only be able to amend or cancel requests that have not been matched.
- 7.2.3 On approval of a cancelling request, the corresponding collateral that had been reserved shall be released and the transaction removed from the pool of available borrowing requests.
- 7.2.4 On approval of a request to amend the quantity of a borrowing request, the corresponding collateral will be released where the quantity of the borrowing request has been reduced or additional collateral will be blocked where the quantity on the borrowing request has been increased.
- 7.2.5 All borrowing requests shall be automatically cancelled immediately on receipt of the suspension/delisting notice from the exchange.

7.3 AUTOMATIC EXPIRY OF BORROWING REQUESTS

- 7.3.1 All borrowing requests shall have an expiry date which shall be indicated when capturing the request.
- 7.3.2 The system shall automatically cancel all pending borrowing requests that have reached expiry date and mark them as expired.
- 7.3.3 Only unmatched quantities of the borrowing requests shall be expired.
- 7.3.4 On expiry, the borrowing requests shall be removed from the pool of available borrowing requests and the corresponding collateral shall be released.

8. LENDING

This function describes the procedures to be followed with respect to receiving lending requests and capturing them in the CDS. The SLB Agent must have an agreement in place with the client before accepting any instructions.

8.1 PROCEDURES FOR LENDING

- 8.1.1 Where the client wishes to lend securities, the client shall submit lending instructions to the SLB Agent;
- 8.1.2 The SLB Agent shall verify the authenticity of the instructions provided by the client and the availability of the securities in the clients CDS account before **capturing the request in the CDS**.
- 8.1.3 The SLB agent shall capture and submit the lending request in the CDS. The following shall be captured for the borrowing request:
 - i) Security
 - ii) Quantity: the quantity of securities to be lent;
 - iii) Lending Fee
 - iv) Expiration date
 - v) Whether the lender allows single or multiple counterparties
- 8.1.4 Upon submission, the securities shall be reserved and the transaction shall be added to the lending pool or matched with an existing borrowing request.

8.2 PROCEDURE FOR EDITING OR CANCELLING LENDING REQUESTS

- 8.2.1 The SLB Agent may initiate a request in the CDS to either edit or cancel a lending request.
- 8.2.2 The SLB Agent will only be able to amend or cancel requests that have not been matched.
- 8.2.3 On approval of a request to amend the quantity of a lending request, the corresponding securities will be released where the quantity of the lending request has been reduced or additional securities will be blocked where the quantity on the lending request has been increased.

8.3 AUTOMATIC EXPIRY OF LENDING REQUESTS

- 8.3.1 All lending requests shall have an expiry date which shall be indicated when capturing the request.
- 8.3.2 The system shall automatically cancel all pending lending requests that have reached expiry date.
- 8.3.3 Only unmatched quantities of the lending requests shall be expired.
- 8.3.4 On expiry, the lending requests shall be removed from the pool of available lending requests and

the corresponding securities shall be released.

9. SLB TRANSACTIONS

This function describes the procedures to be complied with in respect to matching of lending and borrowing requests.

9.1 AUTOMATIC MATCHING OF REQUESTS

9.1.1 The system will prioritize requests for matching as follows:

9.1.1.1 Borrowing requests with higher rates first, when the rate is the same the last update (create or edit operation) timestamp shall be used (FIFO).

9.1.1.2 Lending requests with lower rates first, when the rate is the same the last update (create or edit) timestamp shall be used (FIFO).

9.1.2 The system shall automatically match corresponding lending and borrowing requests according to the following criteria.

9.1.2.1 The Security must be the same;

9.1.2.2 Both requests must be active;

9.1.2.3 Maximum borrowing rate \geq Minimum lending rate (according to priority rules 5.2.1.1 and 5.2.1.2 above)

9.1.2.4 If borrowing request does not allow for multiple lenders:

9.1.2.4.1 *Borrowing quantity* \leq *Available lending quantity*

9.1.2.5 If lending request does not allow for multiple borrowers:

9.1.2.5.1 *Available borrowing quantity* \geq *Lending quantity*

9.1.2.6 Borrowing minimum duration \leq Lending maximum duration

9.2 MANUAL MATCHING OF REQUESTS

9.2.1 An SLB Agent may capture manually a corresponding borrowing or lending request.

9.2.2 The lending agent shall view all outstanding borrowing requests and if any of them match the criteria for his lender he may capture the corresponding lending request to form a matched transaction.

9.2.3 The borrowing agent shall view all outstanding lending requests and if any of them match the criteria for his borrower he may capture the corresponding borrowing request to form a matched transaction.

9.3 MATCHED REQUESTS

9.3.1 Matched requests shall form an SLB agreement

9.3.2 On conclusion of the agreement;

9.3.2.1 The collateral shall be committed; and

9.3.2.2 The securities shall be transferred from the lender's account to the borrower's account

9.3.2.3 The CDS shall generate a unique transaction reference for each SLB agreement.

9.4 SLB REPORTS

The Central depository shall provide daily transaction reports to the Agents by 5.00pm.

10. SLB COLLATERAL

This function describes the procedures to be complied with in respect to provision of SLB collateral, capturing of the same in the CDS and daily marking to market of borrowed securities and collateral.

10.1 PROVISION OF SLB COLLATERAL

10.1.1 Any client intending to borrow securities shall be required to provide collateral in the following forms.

- i) Cash in Kenya shillings;
- ii) Bank guarantee;
- iii) Government securities

10.1.2 The borrowing agent shall be required to provide CDSC with required collateral before capturing any borrowing requests.

10.1.3 Cash collateral shall be deposited in an account prescribed by the Central depository and the following shall apply;

10.1.3.1 The cash shall be invested by CDSC on behalf of the borrower.

10.1.3.2 CDSC shall charge a management fee for managing the cash collateral.

10.1.3.3 Accrued interest shall be paid to the borrower net of the management fee and bank charges.

10.1.4 Collateral in form of securities shall be pledged in the CDS account on behalf of CDSC.

10.1.5 Only bank guarantees from tier one banks will be accepted.

10.2 UPDATING COLLATERAL IN THE CDS

10.2.1 The SLB Agent shall deposit cash collateral in the designated account and capture a request to

update the deposited amount in the CDS.

- 10.2.2 CDSC will confirm availability of the cash in the account and approve the request.
- 10.2.3 The Agent's available collateral shall be increased by the same value.
- 10.2.4 The agent shall capture the details of any non-cash collateral by providing the details of the securities and the account in which the securities are held.
- 10.2.5 Where securities are held in an external depository, CDSC will request for the securities to be pledged in its favor. Upon confirmation of the pledge CDSC will approve the collateral deposit in the CDS.
- 10.2.6 CDSC shall apply a haircut of 5% on the purchase value of treasury bills provided as collateral. Where treasury bonds are provided as collateral a 10% haircut shall be applied and the SLB Agent's available collateral updated by the corresponding value.
- 10.2.7 Upon approval the collateral shall be added to the SLB Agent's available collateral pool.

10.3 WITHDRAWAL OF COLLATERAL

- 10.3.1 Once an SLB transaction is completed and the securities are returned, the collateral is automatically released in the system and made available either for another transaction or for withdrawal.
- 10.3.2 The SLB agent may capture a request in the CDS to withdraw collateral from the available collateral pool.
- 10.3.3 CDSC shall ensure that the collateral to be withdrawn is not blocked for any outstanding transaction and upon confirmation approve the request.
- 10.3.4 For cash collateral CDSC will issue instructions to the bank to transfer the cash back to the borrowing agent.
- 10.3.5 Collateral in form of securities shall be released and made available to the borrower/ borrowing agent.

10.4 DAILY MARKING TO MARKET OF SECURITIES AND COLLATERAL

- 10.4.1 At end of day the CDS shall perform the calculations detailed below and update the values accordingly:
 - 10.4.1.1 Registered Collateral - the system shall update the collateral price for all securities for which a new price is available:
 - a. The system shall recalculate value, haircut and total collateral value.
 - 10.4.1.2 Borrowing Requests - the system shall recalculate the following values for all borrowing requests with a status of Approved or Unmatched:
 - a. Price of the linked security

- b. Unmatched Value
- c. Required collateral
- d. Margin

10.4.1.3 SLB Agreements - the CDS shall recalculate the following values for all active SLB Agreements:

- a. Price of the linked security
- b. Price date of the linked security
- c. Outstanding Securities Value
- d. Margin (outstanding securities value * SLB_margin_percentage / 100)
- e. Collateral committed (Outstanding securities value + margin)

10.4.1.4 SLB Collateral availability - the System shall recalculate the following amounts for each SLB Agent:

- a. Reserved collateral (required collateral of unmatched borrowing requests for the particular SLB agent in the specific currency)
- b. Committed collateral (required collateral of active SLB agreements for the particular CDA in the specific currency)
- c. Available collateral (for the particular SLB Agent in the specific currency)

10.4.2 If the available collateral for SLB agreements for a particular SLB Agent goes below zero (negative) the system shall generate a notification to the borrowing agent by end of day.

10.4.3 On receipt of the notification the SLB agent will be required to provide additional collateral by 12.00pm the following day.

10.4.4 If the SLB agent fails to provide the additional collateral by 12.00pm of the following day, CDSC shall charge a penalty of 1% of the required additional collateral subject to a minimum of KES 10,000 and immediately block the agent from carrying out any additional SLB transactions.

10.4.5 If the SLB agent fails to provide additional collateral by end of day, CDSC shall wind up the SLB agreement the following day by using the available collateral to purchase the securities.

11. SLB RECALLS AND EARLY RETURNS

11.1 RECALL BY THE LENDER

A lender may request for lent securities before the agreed return date.

11.1.1 The lender shall inform in writing their lending agent of the request to have the securities back before the expected return date.

11.1.2 The lender shall be required to give the borrower a notice of at least fourteen (14) business days

to enable the borrower find the securities.

- 11.1.3 The Lending agent shall capture the request in the CDS by changing the return date of the particular SLB transaction to an earlier date. The new date indicated must take into consideration the notice period indicated in 11.1.2 above.
- 11.1.4 Upon confirmation of the recall notice, CDSC shall approve the recall and the system will automatically change the return date on the SLB transaction in the CDS to the newly captured return date.
- 11.1.5 CDSC shall inform the borrower of the request for early return and inform them of the new return date.
- 11.1.6 The borrower will be required to avail the securities on the new return date.
- 11.1.7 The SLB transaction will settle in the normal way on the new return date together with other transactions due to settle on that day.

11.2 EARLY RETURN BY THE BORROWER

A borrower may return borrowed securities before the agreed return date.

- 11.3.1 The borrower shall inform their SLB Agent of the request to return the securities before the expected return date.
- 11.3.2 The SLB Agent shall ensure that the securities to be returned are available in the borrowers account.
- 11.3.3 The borrowing agent shall capture the request in the CDS by changing the return date of the particular SLB transaction to an earlier date.
- 11.3.4 Upon confirmation of the return request, CDSC shall approve the early return and the system will automatically change the return date on the SLB transaction to the newly captured return date.
- 11.3.5 The SLB transaction will settle in the normal way on the new return date together with other transactions due to settle on that day.

12. CLEARING AND SETTLEMENT

This function describes the procedures to be complied with in respect to settlement of SLB transactions

12.1 SECURITIES RETURN

- 12.1.1 CDSC shall send notifications at least 5 days before the expected return date to all borrowing agents who do not have sufficient securities in the borrowing account informing them of the SLB transactions that are due for return.
- 12.1.2 Each borrowing agent shall ensure that it has in the CDS accounts, sufficient securities available to cover its SLB returns by 4.00pm on return date.
- 12.1.3 The CDS shall trigger return of securities by 4.30pm on return date and the system will automatically transfer securities from the borrowers account to the lenders account.

12.2 FUNDS SETTLEMENT

- 12.2.1 Settlement of funds (accrued lending fees and dividends) shall take place on the next day following the return date.
- 12.2.2 CDSC shall provide SLB agents and their Settlement Banks with their respective Final Settlement Reports by 8.00 am. on settlement date. The settlement obligations will comprise of the accrued lending fee and any accrued dividends.
- 12.2.3 Each borrowing agent shall ensure that it has in the Settlement Account with its Settlement Bank, sufficient funds available to meet its obligations in accordance with the Final Settlement Report by 10.15am on settlement date.
- 12.2.4 The Settlement bank shall notify each Agent's funding position to the CDSC by 10.15 am on settlement date.
- 12.2.5 CDSC shall submit final settlement instructions to the settlement banks and CBK by electronic means (or any other mode as may be agreed from time to time), by 10.30am on settlement date. These settlement instructions shall be final and irrevocable.
- 12.2.6 The settlement banks and CBK shall transfer funds in accordance with the settlement instructions by 11.00am on settlement date.
- 12.2.7 The CBK will confirm settlement of funds to CDSC immediately by electronic means (or any other mode as may be agreed from time to time).

12.3 FUNDS SETTLEMENT DEFAULT

- 12.3.1 The defaulting Agent's Settlement Bank will inform CDSC of any shortfall in the funds

settlement by 10.15am on settlement date.

- 12.3.2 The CDA's Settlement Bank will provide for the shortfall in accordance with the terms of the Settlement bank agreement.
- 12.3.3 The defaulting agent will be required to reimburse the Settlement bank of the amount paid on its behalf including any interest charges by 12.00 pm on the next business day.
- 12.3.4 In the event that the agent does not reimburse the Settlement bank as stated in 12.3.3 above, the Settlement bank will immediately notify CDSC not later than 1.00pm on the same day.
- 12.3.5 CDSC will draw down the amount required (initial amount paid plus any accrued interest) from the SLB agent's collateral and replenish the affected Settlement bank position within one business day of being notified by the Settlement bank.
- 12.3.6 In case the collateral is not sufficient to cover the agent's obligation, CDSC shall use the guarantee fund to cover the difference.
- 12.3.7 CDSC will levy default penalties to the affected agent in accordance with Procedure 15 of these procedures.
- 12.3.8 In any event, the defaulting agent will be suspended from capturing any new borrowing requests immediately upon receipt of information of the Agent's funds shortfall until all its obligations are fully met.
- 12.3.9 CDSC shall notify the defaulting agent and the Authority of the suspension.

12.4 SECURITIES DELIVERY FAILURE

- 12.4.1 CDSC shall send notifications to all borrowing agents who do not have sufficient securities in the CDS account to cover returns that are due. The notifications will be sent five (5) business days before the expected return date.
- 12.4.2 Where a borrowing agent does not have sufficient securities to cover an SLB return on return date, the transaction will be marked as a failed return and removed from the settlement batch and the procedures below will apply.
- 12.4.3 A daily penalty equivalent to 0.14 % of the value of the transaction shall be imposed for any failed SLB transaction in accordance with Procedure 15.
- 12.4.4 If the securities remain undelivered at 9.00am on settlement date, CDSC shall initiate a buy-in in accordance to the Central depository operational procedure on Buy-in.
- 12.4.5 Once the required amount of securities are acquired, the securities will be availed in the defaulting borrowers account and the failed SLB transaction shall be settled the next business

day.

- 12.4.6 If the buy-in is unsuccessful CDSC will use the borrower's collateral to compensate the lender by transferring to them a cash equivalent of the value of securities that are not delivered. The last average price obtained from the exchange shall be used to determine the value of outstanding securities.
- 12.4.7 Where the borrower's collateral is not sufficient to compensate the lender, CDSC will use up to 15% of the cash deposited as per the buy-in procedures to compensate the lender.
- 12.4.8 CDSC will retain the remaining balance of the cash deposit as processing fee.
- 12.4.9 CDSC will then cancel the SLB transaction.
- 12.4.10 The defaulting agent shall bear all losses and expenses associated with the buy-in.

13. CORPORATE ACTIONS

This function describes procedures to be complied with in respect of dividends and other Corporate Actions for securities that are part of an SLB agreement.

13.1 CAPTURING CORPORATE ACTIONS IN THE CDS

- 13.1.1 The Issuer shall inform CDSC in writing of the corporate action Entitlement Date, the effective date and all other relevant details in respect of the corporate actions.
- 13.1.2 CDSC shall capture the details of all corporate action in the CDS.

13.2 EFFECTING CORPORATE ACTIONS IN THE CDS

- 13.2.1 On entitlement date the CDS will calculate the corporate actions accruing on all outstanding SLB transactions.
- 13.2.2 On effective date the outstanding quantity of SLB transactions shall be updated accordingly to reflect all securities based corporate actions like bonuses or splits.
- 13.2.3 On effective date the CDS shall accrue all cash dividends as obligations payable by the borrower.
- 13.2.4 On SLB settlement date, accrued dividends or interest payments shall form part of the borrower's obligation.

14. STATEMENTS OF SECURITIES ACCOUNTS

- 14.1** The balance of securities borrowed or lent will be reflected on the CDS statement.
- 14.2** Any corporate actions allocations will also be reflected on the statement and will add to the running balance on the lending and borrowing segment on the statement.
- 14.3** CDSC will make available statements of accounts on a monthly basis to holders of Securities Accounts where an SLB transaction has taken place.

15. FEES AND SURCHARGES

A) Lending Fee: This fee is an annualized percentage of the value of the securities and is market determined

B) Investors

Type	Fee
i) CDSC Levy (Borrower)	0.20% of the value of borrowed securities
ii) SLB Agent Commission (Borrower)	0.30% of the value of borrowed securities
iii) Guarantee fund Levy (Borrower)	0.05% of the value of borrowed securities
iv) CDSC Levy (Lender)	7% of the Lending fee
v) SLB Agent Commission (Lender)	8% of the lending fee
vi) Guarantee fund Levy (Lender)	1% of the lending fee

C) SLB Agents

i) Annual Subscription Fee for SLB Agents	25,000
ii) Cash Collateral management fee	1% of the value of cash collateral

C) PENALTIES

- 15.1.1 Where securities are not delivered on return date the following charges shall apply:
- 15.1.2 Daily fine of 0.14 % of the value of the transaction subject to a minimum of Kshs. 3, 000 and a maximum of Kshs. 10, 000 until the situation is rectified or until buy-in is initiated;
- 15.1.3 Daily fine of 1% of the value of the undelivered securities during the period of buy-in until conclusion;
- 15.1.4 If a buy-in is unsuccessful, the defaulting agent shall pay a penalty of 2 % of the value of the undelivered securities

16. DE-LISTING OR TRADE SUSPENSION OF SECURITIES

- 16.1** The Issuer will inform the Securities Exchange and the CDSC in writing of the proposed date of delisting or suspension.
- 16.2** CDSC will initiate a mandatory recall (closure/termination) of all outstanding SLB agreements for the particular security before the effective suspension, delisting or compulsory take over.
- 16.3** CDSC will send notifications to the respective borrowing and lending agents (within 5 days of receipt of the issuer's notice). The borrower shall have 14 days to make arrangements to return the securities.
- 16.4** Where it is not possible for the borrower to return the securities, CDSC will initiate a cash settlement process.

17. RETENTION PERIOD

The retention period in respect of Service records by SLB Agents will be 7 years or such longer period as may be imposed by relevant laws.

18. SLB CONTRACTS

The contracts set out in Appendices 1 and 2 to these Procedures shall be the prescribed Forms to be used for the purposes stated therein.

19. LIST OF APPENDICES

- i. SLB Agency Contract
- ii. Securities Lending and Borrowing Contract